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October 22, 1996

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OCT 22 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Federal Communications Commission
Office of Secretary

Re: Implementation of the Local Competition
Provisions in the Telecommunications Act of
1996, CC Docket No. 96-98 Price Cap Performance
Review for Local Exchange Carriers, CC Docket
No. 94-1

Dear Mr. Caton:

In accordance with the Commission's rules governing ex parte presentations, please be advised that today, David Hostetter, Richard Standish, and the undersigned, representing Southwestern Bell Telephone Company, met with James D. Schlichting, Jane E. Jackson, and Douglas Slotten of the Common Carrier Bureau. The purpose of the meeting was to discuss access charge reform and related issues in the above-referenced rule making dockets.

Written materials, which were used during the presentation, are attached to this letter for inclusion into the official record in the dockets. Pursuant to Section 1.1206(a)(1) of the Commission's rules, 47 C.F.R. § 1.1206(a)(1), two copies (for each docket) of this letter and the supporting materials are provided for your use. Please stamp and return the provided copy to confirm your receipt.

Do not hesitate to contact me should you have any questions.

Sincerely,

Attachments

cc: Mr. Schlichting
Ms. Jackson
Mr. Slotten

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Southwestern Bell Telephone Company

Access Reform

October 22, 1996

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MOU Growth Trends

- **Sprint is the Only Member of the "Big 4" Carriers to Continue Double Digit Growth in 1996**
- **AT&T and WorldCom Dropped Below 1995 MOU Levels and MCI is Relatively Even with 1995 Performance**

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MOU Growth Trends (Total Company)

	MOU Growth	Access Line Growth
1995	9.7%	4.2%
1996 (thru Sept.)	8.3%	5.4%

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The Telecommunications Act of 1996 Opens the Local Exchange

- **FCC's Orders and NPRMs Implementing the Act Have
Opened the Local Exchange**
- **Loops, Switching and Transport Unbundled (96-98)**
- **Local Number Portability (95-116)**
- **Dialing Parity (96-98)**
- **Interconnection and Reciprocal Compensation Agreements
Negotiated**
 - **Twenty-Three Interconnection Agreements Reached
with 12 Companies, and Negotiations Are Underway
with Nearly 60 More. Major Arbitration Decisions
Due Shortly in Texas and Missouri**
- **Collocation Operational (91-141, 96-98)**

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Practical Result of the Commission's Orders

- Incumbent LEC Networks and Services Can Be Duplicated in All Geographic Areas
 - ✓ LEC Competitors are not Incented to Construct Facilities
- All Customers Can Be Reached by Competitors

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Future Access Charge Plan

- Many Customers Will Have the Same Carrier for Their Local Service and Their Long Distance Service, While Many Other Customers Will Not
- Access Charges Will Apply Whenever the Originating or Terminating Long Distance Carrier is Not the Same as the Customer's Local Service Carrier
- The New Access Charge Plan Needs to Address a Situation When Customer's Local Service Provider is Not an Incumbent LEC
- All Local Service Carriers Providing Exchange Access Must Be Treated the Same in a Given Market

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The Steps to Access Reform

- **Support Flows Must Be Replaced with Rate Rebalancing and Explicit Funding Mechanisms**
- **SWBT Should Be Permitted to Price Manage its Access Charge Levels During the Transition to Full Local Exchange Competition**
- **Establish an Access Charge Plan Based upon Competitive Parity**
 - ✓ **Structural Flexibility**
 - ✓ **Pricing Flexibility**

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Access Reform Structural Flexibility

Rate Realignment

Common Line

- EUCL Would Be Price Rebalanced over Four Years
- CCL and LTS Would Be Replaced by Explicit Elements in the Universal Fund

Switching

- Remove Switch Line Port Costs from Switching Rates and Establish a Separate NTS Element Recovery from End-Users
- Remove Switch Trunk Port Costs from Switching Rates and Establish a Separate NTS Element Recovered from Carriers

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Access Reform Structural Flexibility(Cont.)

Transport

- Identify TIC Components and Move to Appropriate Rate Elements Including the Universal Service and Public Policy Funds
- Rebalance Remaining Access Prices

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Transport Interconnection Charge
(TIC)

TIC REVENUES = \$228M

ITEM	COST CAUSATION	RESTRUCTURE (Millions)
Tandem Switching	Tandem Switching	\$29.7
Analog End Office Trunk Ports	Transport/Switching	\$16.8
Host Remote Configurations	Transport	\$14.4
Redefined Tandem Switched Transport	Tandem Switched Transport	\$ 7.8
COE Maintenance Reallocation	Part 36&69 Switching Misallocation	\$10.4
Rate Averaging	High Cost Transport Areas	\$115.3
Modification of Termination Counts	Part 36 Allocation Method	\$21.4
Modification of Book Cost/Mile for Cable & Wire Cat. 3	Part 36 Allocation Method	\$4.9
SS7 Elements	Switching	\$7.0
TIC REDUCTION		(\$228)

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Effects of Restructuring TIC

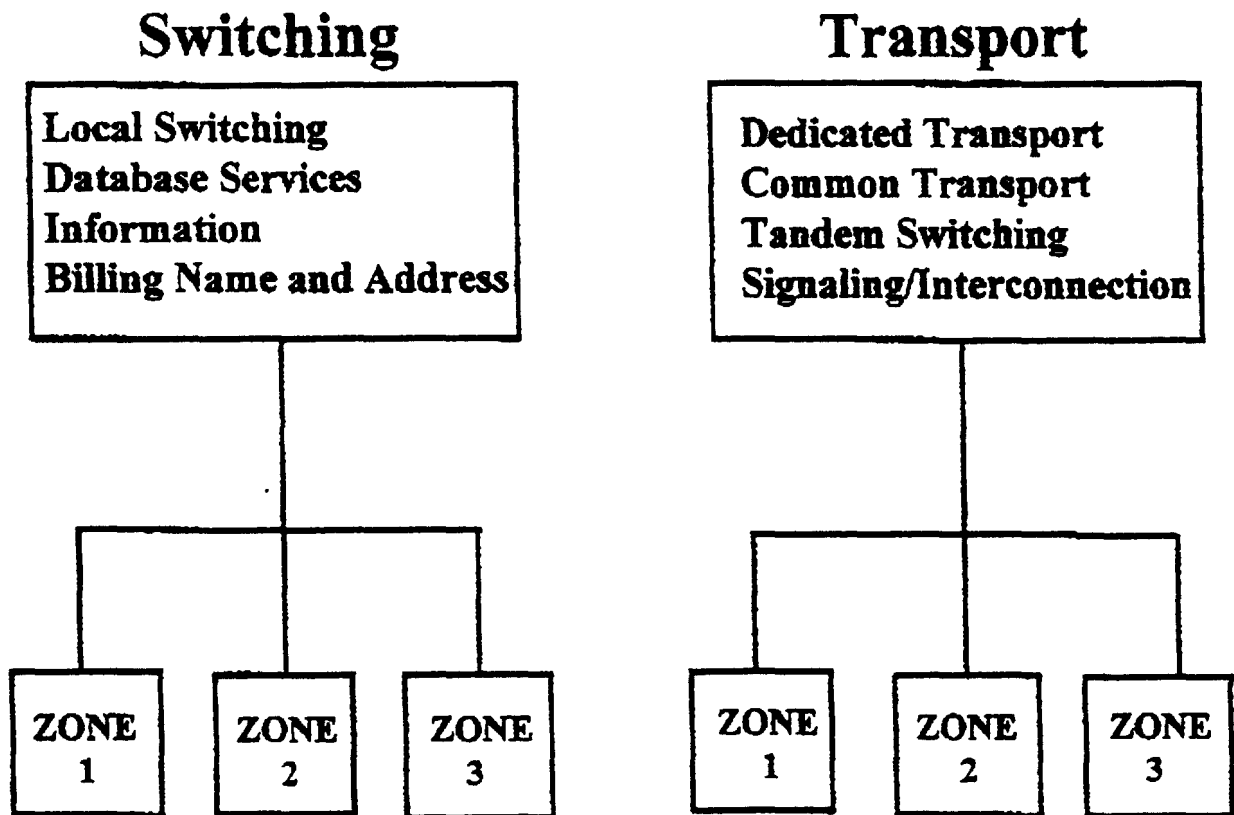
ITEM	Recommendation	Revenue Impact (\$M)
Tandem Switching	Regulatory Policy Fund	\$29.7
Analog End Office Trunk Ports	New Switching Element	\$16.8
Host Remote Configurations	New Common Element for Traffic to remote office	\$14.4
Redefined Tandem Switched Transport	Increase Transport	\$7.8
COE Maintenance Reallocation	Decrease CCL, Increase Local Switching, Decrease Special Access, Interstate to Regulatory Policy Fund	CCL - (\$19.0) LS - \$17.4 SpAc- (\$21.6) Other- \$1.1 Intra - \$32.5
Rate Averaging	Increase Transport in Zone 2 and 3 or recover with Regulatory Policy Fund	Zone 2 - \$41.6 Zone 3 - \$73.7
Modification of Termination Counts	Increase Special Access and CCL, Intrastate to Regulatory Policy Fund	CCL - \$ 0.2 SpAc- \$22.6 Intra - (\$1.5)
Modification of Book Cost/Mile for Cable & Wire Catagory 3	Increase Special Access and CCL; Intrastate Costs to Regulatory Policy Fund	CCL - \$0.1 SpAc- \$4.1 Intra - \$0.7
SS7 Elements	New Switching Elements	\$7.0
TIC Reduction		(\$228.0)

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Access Reform Structural Flexibility

- No Codified Access Elements
- Price Cap Changes
 - Two Baskets: Switching and Transport
 - Special Access Removed from Price Caps
 - EUCL Removed From Price Caps
 - Interexchange Services Removed from Price Caps
 - Price Cap Manage at a Basket (PCI) Level - No Service Categories
 - Access Services in a Given Market Area Removed from Price Caps by Demonstrating Use of Unbundled Network Elements or Other Facilities-Based Alternatives

SWBT PROPOSED PRICE CAP BASKET STRUCTURE



NOTE 1: Access Services Removed Upon A Showing Of The Use Of Unbundled Elements, Or Other Facilities Based Alternatives

NOTE 2: Special Access Services and Operator Services are Competitive services

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Access Reform Pricing Flexibility

- **SWBT Needs the Same Types of Pricing Flexibility Utilized by its Competitors**
 - **Zone Pricing**
 - **Alternate Pricing Plans**
 - **Contract Carriage**
 - **Forbearance from Tariff Requirements, Section 214**

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Access Reform Capital Recovery

- Establish a Capital Recovery Plan to Quantify and Recover Under-Depreciated Costs
 - ✓ Amortize and Recover These Costs over a 5-Year Period with a Public Policy Funding Mechanism